



FINANCE AND ADMINISTRATION CABINET
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MEMORANDUM

TO: Mark Treesh, Commissioner
Department of Revenue *MT*

FROM: Robert M. Gillim, Executive Director
Office of Processing and Enforcement *RMG*

DATE: November 8, 2005

SUBJECT: Annual Adjustment of Tax Interest Rate
Rate Effective January 1, 2006

The tax interest rate for January 1, 2006 through December 31, 2006 will be 7%.

KRS 131.183(1) provides, in part, that the "commissioner of revenue shall adjust the tax interest rate not later than November 15th of any year, if the adjusted prime rate charged by the banks during October of that year, rounded to the nearest full percent, is at least one (1) percentage point more or less than the tax interest rate which is then in effect." Under KRS 131.010(5), the definition of "the adjusted prime rate charged by banks" means "the average predominant prime rate quoted by commercial banks to large businesses, as determined by the board of governors of the federal reserve system." In compliance with these provisions, an annual survey of selected banks in Kentucky which charge a prime rate to their preferred customers.

The Wall Street Journal defines "prime rate" as "the base rate on corporate loans posted by at least 75% of the nation's thirty (30) largest banks."

Banks can have more than one prime interest rate during October and, in such instances, the rate is calculated from weighted averages. However, this year all banks surveyed charged 6.75% for the entire month of October, 2005. Therefore, the average prime rate rounded to the nearest full percent, is 7.0%. Since the average is at least one (1) percentage point above last year's 5%, **the tax interest rate for calendar year 2006 will be 7.0%.**

Approved *MT*
Mark Treesh, Commissioner
Department of Revenue

Date 11-10-05